October 31, 2016

Mitsui O.S.K. Lines, Ltd.

Explanation by the CEO and Major Q&A

[Overall View]

The second quarter of FY2016 ended with a slight upturn from the previous outlook, despite a continued severe business environment. On the other hand, looking at the full-year forecast, we made a downward revision from the previously announced outlook , as a result of anticipating decrease, mainly in the Bulkships business, in the second half, in addition to other factors such as higher bunker prices and the appreciation of the yen.

1. Supplementary Explanation of Q2 FY2016 Financial Results

[Overall]

Ordinary income was ¥5.4 billion, securing profitability, albeit at a low level. This was a slight upturn from ¥3.0 billion in the previous outlook announced on July 29, but this included some changes in the number of voyages completed in the second quarter, which will account for some of profits for the second half in advance. Additional factors behind the higher than expected ordinary income, despite continued difficulties in the business environment, were our efforts to improve operational efficiency in the Bulkships business and enhance yield management in the Containership business. Meanwhile, we saw an improvement of about ¥18.0 billion for the first half, in line with our initial plan, due to the Business Structural Reforms, which recorded related costs in the last fiscal year.

On the other hand, in a year-on-year comparison, almost all divisions showed a significant decrease in profits despite the effects of the Business Structural Reforms, as a result of deterioration in all markets. This situation has not changed since my explanation in the previous announcement.

The first half's net income showed a surplus of ¥16.0billion, due in part to the sale of non-core assets as a part of the Business Structural Reforms, and taking advantage of a strong market to sell vessels that have unrealized profits, mainly in the Tanker division. Speaking of the sale of non-core assets, we recorded nearly ¥19.0 billion in capital gains on the sale of shares in a logistics company in Germany that handles mainly wine and spirits.

[By segment]

<Bulkships>

■ **Dry bulkers**

The market, which reached a historic low from January through February of this year, has hit bottom and is on a moderate recovery trend, but its momentum is not strong.

The Capesize market reversed starting in April, and then market sentiment turned around, backed by robust iron ore shipments from major ports in Brazil, so we saw a further rise in September. However, the average per-day charter rate for the first half was around the lower half of the $7,000 range, remaining significantly below the average cost for the industry.

Most Panamax and mid- and small-size vessels were still operated by a subsidiary in Singapore for the first half, and the market's historic low from January through March is still reflected in the financial results for the first half. The market began to rise in March, backed by favorable factors such as increasing exports of grain from South America and a rise in China's coal imports. However, its upward mobility is limited, so the market has not reached a full-scale recovery.

We launched the Business Structural Reforms last fiscal year in consideration of the slow pace toward a full-scale recovery of the dry bulker market, and are now executing a significant scale-down of our market exposure. In addition to that reform, we have steadily recorded a certain level of stable profits from long-term contracts, mainly for Capesize vessels. So, we can say with confidence that we have established a financial position that can achieve solid profitability even under this severe business environment. Ordinary income for the first half showed an upturn from the previous outlook, but this is partly because we posted profits projected for the second half in advance due to changes in the number of voyages completed in the second quarter, as I mentioned earlier.

■ **Tankers**

The tanker market continued to slide downward due to a deteriorated balance in the fleet supply and demand, spurred by an increase in the supply of newbuilding vessels, limited success in the decommissioning of aged vessels, and the halt in the crude oil shipments from Nigeria due to its domestic conflict. The product tanker market remained weak because of an overall slack demand and supply balance due to stagnant trade of vegetable oils and so on and deliveries of newbuilding vessels, despite robust exports of middle distillates from China. The LPG carrier spot rate market was stagnant as a result of softening trade for Asia from North America due to depressed LPG prices in the Asian market, in addition to the increasing pressure of newbuilding vessel supply, which was already anticipated from the initial outlook, although we concluded mid- and long-term contracts when the market was strong and have only four vessels under spot operation.

Although the tanker market weakened overall, we recorded the same level of profits as in the previous outlook despite a decrease in a year-on-year comparison, as a result of pressing ahead to improve operational efficiency by pool operation, in addition to stable fulfillment of long-term

contracts.

■ **LNG carriers / Offshore businesses**

We recorded stable profits for the first half thanks to long-term contracts, and ended with a slight upturn from the previous outlook. However, as in the dry bulker business, this result was due in part to posting projected profits for the second half in advance due to changes in the originally projected number of vessels that completed voyages in the second quarter and had dry-dock in the second quarter.

■ **Car carriers**

Trade volume for the Middle East, West Africa, and other resource-producing countries remained slow due to the impact of lower resource prices, while shipments to the U.S. and Europe showed continued strength. We regret to say that ordinary income in this business deteriorated significantly in a year-on-year comparison despite our efforts to improve operational efficiency to meet changes in trade patterns. However, in comparison with the previous outlook, it ended in line with our expectations.

As a result, total ordinary income of the four divisions in the Bulkship segment for the first half was ¥20.3 billion, a decrease in a year-on-year comparison, but an improvement from the previous outlook.

<Containerships>

The freight rate level on the Asia-North America route, which remained at a slightly lower level than expected in July and August, despite the high-demand summer season, moved upward in September, due in part to a tightening in the demand and supply balance resulting from the bankruptcy of an overseas shipping company at the end of August. Since then, it has remained firm.

On the Asia-Europe route, despite shipping companies' intermittent efforts to increase freight rates in response to a recovery in cargo movement, they were unable to maintain steady rate increases as the demand and supply balance did not tighten enough, and moves toward rate restoration dissipated quickly.

On the other hand, regarding the Asia-East Coast of South America route, the freight rate remained at high levels as a result of an improved demand and supply balance thanks to a major rationalization by MOL and other companies, even amid a 20% to 30% decline in cargo volume. The

route suffered a significant deficit last fiscal year, but turned to profitability in the first half.

Under this situation, we have worked to reduce operational costs such the expense of returning empty containers through yield management, in addition to improving utilization by enhancing our sales capabilities. And now, we are seeing the impact of those efforts. Unfortunately, the segment showed a higher deficit in a year-on-year comparison, but kept the deficit nearly in line with our previous outlook, despite setbacks on the Asia-North America and Asia-Europe routes in July and August. I truly believe that our efforts are bearing fruit.

2. Explanation of FY2016 Full-year Forecast

[Overall]

I regret to say that we must make a downward revision for ordinary income/loss from previously announced ¥10.0 billion in the black to a deficit of ¥3.0 billion, and for net income from ¥15.0 billion to ¥7.0 billion. Major factors behind this were the more severe business outlooks, mainly for the tanker and car carrier divisions, in addition to the impact of higher bunker prices and appreciation of the yen.

Let me explain at a glance, the breakdown of our downward revision of ¥13.0 billion in ordinary income. The impact of bunker prices and foreign exchange is minus about ¥2.5 billion each, or minus ¥5.0 billion in total, and the remaining minus ¥8.0 billion results from fluctuations due to other factors including market conditions.

Turning to net income/loss, extraordinary gain and loss for the first half will remain almost unchanged, and we are projecting ¥7.0 billion in surplus.

Further, speaking of the dividend, we plan to pay ¥2 per share for the interim, but regret to say that the year-end payment for the second half is to be determined at the present time, considering that we currently forecast second-half deficits for both ordinary income/loss and net income/loss.

[By segment]

<Bulkships>

- **Dry bulkers**

We have not made significant changes in our market assumption for the second half, though we made a small-margin upward revision, reflecting the current moderate trend toward recovery.

Deceleration of the Chinese economy became clear despite favorable factors such as an increase in China’s coal imports and the U.S. grain harvest, so we don’t see a significant

improvement from a fundamental aspect, and cannot summon any optimism about the situation.

Looking at the fleet supply situation, more aged vessels have been scrapped due to prolonged market stagnation, and supply pressure of newbuilding vessels has weakened significantly. In particular, Capesize, Panamax, and Small Handy bulkers have been scrapped at about the same rate as deliveries of newbuilding vessels.

The scale-down of our market exposure through the Business Structural Reforms has been showing steady progress as we approach the end of this fiscal year. We will steadily produce improvements totaling ¥26.0 billion for the full year in the Dry Bulker division as initially planned, in addition to the effects of vessel cost reduction. Besides, thanks to stable profits from long-term contracts, mainly for Capesize vessels, we fully expect to record a surplus in this fiscal year compared to deficits in the previous year even under the current difficult market situation.

■ Tankers

The crude oil tanker market, which was temporarily stagnated, is on a recovery trend in October. Shipments of crude oil from Nigeria recovered in line with the end of domestic conflict, which led to increase of long-distance trade bound for India and the Far East. These factors are tightening the demand and supply balance. We anticipate that the market will remain firm toward the high-demand winter season, but the impact on our lackluster business performance for the second half remains due to a slowdown of the market in September, so we project a decrease in profits from the first half.

We expect the product tanker market to be in the doldrums in early fall due to periodic maintenance of oil refineries in Japan and slowing trade between Europe and North America. Then, it is expected to show a moderate recovery toward the winter demand season. However, supply pressure from newbuilding vessels is still cause for anxiety.

As a result, the full-year business performance in the tanker division is projected to show a significant decrease in profits from the previous year when the market appreciated strongly, and swing downward from the previous outlook.

■ LNG carriers / Offshore businesses

This year, a total of 14 projects — six new LNG carriers, two new FPSOs, and six new ethane carriers — will start operation. Two FPSOs among them are expected to delay operation from the middle to the end of the year, so the full-year business performance is projected to show a slight downward move from the previous outlook. However, our projection for these projects' lifetime profitability is unchanged, and we think they will steadily contribute to our profits after starting operation.

■ Car carriers

The car carrier division has been recording relatively stable profits, but trade volume bound for resource-producing countries is still significantly weaker, and this continues to weigh on profits. We have worked to improve profitability by returning and scrapping surplus vessels to rationalize fleet allocation and meet changes in trade patterns. However, we believe a significant decrease in profits from the previous year is unavoidable.

As a result, total ordinary income of the Bulkships business for the full-year is ¥28.0 billion, requiring a downward revision from ¥34.5 billion in the previous outlook.

<Containerships>

It also appears certain that our ordinary loss for the full-year outlook will further increase from the ¥40.5 billion projected in the previous announcement, and we had to make a downward revision to a ¥44.0 billion ordinary loss. This is due to a fall in the starting point of freight rates toward the second half of the year as we were unsuccessful in increasing freight rates in July and August, the peak season on the Asia-Europe route, in addition to higher bunker prices.

On the other hand, freight rates on the Asia-North America route remained robust despite the current slack period, due in part to the impact of the bankruptcy of an overseas shipping company and firm cargo trade. So prospects for an increase in freight rates before the Christmas season are improving. High utilization continues on the Asia-Europe route, due in part to the effects of reduced service frequencies. The freight rate market in this summer's peak season was unfavorable. But if this situation continues, it can be expected to remain firm with only a slight decline, and furthermore, considering that Chinese New Year falls at the end of January 2017, earlier than usual, we have a slight expectation that the freight rate market will remain firm and reach a high point continuously from the pre-Christmas peak to the pre-Chinese New Year peak. However, we developed this full-year outlook without including such an optimistic scenario.

Our efforts to mitigate these difficult conditions have resulted in greater improvements than in initial outlook, due to reduced costs for returning empty containers through improved yield management and increased inbound utilization resulting from enhanced sales capabilities. So it would be fair to say that this to some degree offsets the decline in our performance under the current severe market.

The business environment does not allow optimism, and we realize that we may have to respond to the situation with swift measures such as reducing sailings with flexibility, depending on trends in cargo volume. But we think the current situation shows some positive signs, at least on a

local level.

In one more point related to finance, I would like to touch on the procurement of ¥100.0 billion we have recently pursued through a hybrid loan. This achieves both fund procurement needed for investment in our growth strategies and effective strengthening of our financial position while avoiding equity dilution, as credit rating agencies are expected to recognize the hybrid loan's equity credit characteristics, similar to equity instruments. We continually aim to, once again, strengthen our equity capital through our efforts to improve business performance and cash flows, which were depleted by implementing the Business Structural Reforms.

Next, I want to take this opportunity to give you a supplemental explanation about the integration of the containership business we announced today.

3. About integration of three companies' containership businesses

Today, we reached an agreement with Nippon Yusen Kaisha (NYK) and Kawasaki Kisen Kaisha ("K" Line) to establish a new company and transfer all three companies' containership business and overseas container terminal business to that new company, which is slated to begin operations in April 2018. This is not a joint vessel operation through an alliance, but rather an integration of management resources related to the containership business, which remains a core business for each of the three companies.

Looking at the investment ratio of the new company, we determined that MOL holds a 31% share, NYK has 38%, and "K" Line has 31%, in consideration of the three companies' operating assets, profitability, and fleet scale, etc. Regardless of the investment ratios, the new company will be operated on an equal footing.

Currently, 4,500 executives and employees among about 10,000 consolidated employees are involved in our containership business, which accounts for about 40% of our consolidated revenue. But as you know, this business has had a tough time in terms of profitability for many years, despite continuous efforts on cost reduction and rationalization. When I took the post of president & CEO, I told myself that turning the containership business around was the biggest challenge I faced, and we have been pushing ahead on our own with efforts such as enhancement of yield management, reduction of vessel costs through the Business Structural Reforms, rationalization of routes, and reorganization of alliances. However, freight rates fell to a historic low due to a deteriorating pace of

growth in global cargo trade and an oversupply of containerships caused by the addition of large-size newbuilding vessels. Not only our company, but also almost every containership operator in the world fell into red ink. This industry is in the midst of a crisis, reflected by the recent bankruptcy of a major line.

Furthermore, it is not enough to enjoy the economies of scale only through ties with an alliance, as the industry has been rapidly restructured by mergers and acquisitions since last year. We think it is vital to integrate a business scale equal to that of the world's top shipping companies, and reached this decision. It's an undeniable fact that the integration offers the merits of scale, especially in costs, compared to independent business. At this level, the new company will have about a 7% share of the worldwide fleet, rank in the industry's top six, and equal to the top five in consideration of vessels on order, placing the newly integrated company among the world's mega carriers.

Of course, competitiveness in the containership business is not determined by business scale alone. The three Japanese shipping companies already have a cooperative relationship under the umbrella of The Alliance, which will start next spring, and have many common points in terms of business scale and corporate culture. The three companies also have considerable synergies as we move in the same direction to become the world's premium carrier. Taking advantage of our expanded scale, the integration allows us to provide competitive services by adopting the best practices of each company in terms of business operations, ship operations, vendor management, IT, and so on. As a result, we anticipate synergistic effects of ¥110 billion per year among the three companies. This figure is not overly optimistic, but rather a solid estimate by the integration of cost rationalization in parts, mainly involving shore-based operations. We believe the new company will become the carrier of choice for customers, and deliver higher levels of satisfaction than ever before.

The integration will drastically change the structure of our company. The new company will become an equity method affiliated company, and our consolidated revenue will be decreased by about ¥580.0 billion in accounting for this fiscal year, for instance. Revenue is not everything, but the fact is that corporate status is judged to some extent by revenue. In addition, in our over 130-year history, the containership business has played a huge role in our corporate culture and organization, in addition to its financial aspects. Our commitment to the containership business is unchanged. But for the new integrated company to be a more effective corporation after it becomes our equity method affiliate, we will work up to that point in the management plan starting with the next fiscal year. We think the containership business will become profitable through industry-wide structural reforms. The new company continues to be a member of our group, and continues to seek synergy with other business divisions. We believe we can further enhance relationships with customers and

service quality accumulated over years, and our group strength as a full-line marine transport group.

We still don't have a lot of details we can share with you at the present moment, because there are still so many things undetermined. But we will disclose detailed information as it becomes available, so we would like to ask you for continued support.

4. Questions and Answers

[Integration of Container Shipping Businesses]

Q1) How will the new integrated containership company approach corporate governance? Can you explain how you can smoothly balance the interests of each of the three companies?

A1) Of course, the three companies have different ideas, but the containership business is at the core of all three. All of us share the expectation that we can achieve profitability and a solid return on investment, and fundamentally, we are on equal footing. So I don't think balancing the interests of each company will become a big issue.

Q2) You announced that the new joint containership company will create synergies by adopting the three companies' best practices. Can you give us some concrete examples of areas in which MOL has relative advantages at this time?

A2) Our ongoing efforts to enhance yield management are showing strong results, so I think we can say this is one of our advantages. Even in the route portfolio, some routes such as the Asia-East Coast of South America route, which used to be a disadvantage until the last fiscal year, but turned to profitability, became our unique strength. In addition, we took initiative on global human resources management ahead of other companies. And we have consistently pushed forward cost competitiveness in the on-shore aspects of container transport, which we believe can hold its own with other players in this industry.

Q3) Please gives us the details of equity contributions in kind, such as vessels, in the integration of the containership business.

A3) The three companies agreed on the direction that the new joint venture's capital composition will combine equity contributions in cash and in kind. But we have yet to hammer out the details. We will disclose details of the capital composition at the appropriate time.

Q4) The effect of the integration of the containership business is estimated conservatively at ¥110.0 billion. Please tell us how much you can expect in profits from the new joint venture.

A4) We have high expectations for the profitability of the containership business. Currently, the containership industry is undergoing drastic reforms. In that situation, more and more players are integrating rapidly. Like the restructuring of airlines and inland railroad companies in North America that occurred in the past, it is conceivable to develop a business structure that can reap stable profits as a result of the integration. We must not be overly optimistic, but we think our future efforts will put us on the right track.

Q5) As for costs associated with the integration of the containership business, please give us a sense of the scale, the timing to post costs, and whether or not we risk a downturn in our business performance for the next fiscal year.

A5) Costs associated with the integration are affected by details, which will be determined in the process of establishing the new joint venture, so for the time being, I want to refrain from commenting on these issues, including the impact on our business performance for the coming fiscal year.

[Q2 FY2016 Financial Results]

Q1) The Q3 freight rate index assumption on all containership routes is lower than Q2. How did you include the current spot freight rate?

A1) We see relatively conservative view for the containership freight rate in the full-year forecast for business performance. The assumption for H2 is based on the forecast that the market will remain at low levels in Q3 and rates will be raised in line with increasing cargo demand before and after Christmas and before Chinese New Year.

Q2) Please explain the progress of returning dry bulkers early, which is a part of the Structural Business Reforms.

A2) It's almost in line with our initial assumption. Therefore, we expect to see the effects outlined in that assumption.

[END]